

AAC Clyde Space

Omnisys extends capabilities and reach

Omnisys acquisition
completed

Aerospace & defence

17 May 2021

Price **SEK2.32**

Market cap **SEK432m**

SEK11.77/£1

Net cash (SEKm) at 31 December 2020 62.2
(excluding lease liabilities)

Shares in issue 186.4m

Free float 97%

Code AAC

Primary exchange Nasdaq First North Premier

Secondary exchange OTCQX

Share price performance



% 1m 3m 12m

Abs (11.4) (39.1) (32.7)

Rel (local) (9.8) (43.9) (55.6)

52-week high/low SEK4.39 SEK2.32

Business description

Headquartered in Sweden, AAC Clyde Space is a world leader in nanosatellite end-to-end solutions, subsystems, platforms, services and components, including supply to third parties. It has production and development operations in Sweden, Scotland, the Netherlands and the United States.

Next events

AGM 27 May 2021

Q121 results 27 May 2021

Analyst

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The acquisition of Omnisys Instruments was completed on 30 April 2021. The combination of existing cubesat knowledge with microwave sensing technology should allow AAC Clyde Space to extend its product and service offering in the high growth, space-based weather and climate data market. We have adjusted our estimates to reflect the purchase of the already profitable business and the contingent fundraise of SEK100m (gross). AAC Clyde Space continues to execute its growth strategy and appears to be moving to profitability and cash generation.

Year end	Revenue (SEKm)	PBT* (SEKm)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/19	66.4	(38.2)	(0.45)	0.0	N/A	N/A
12/20	98.4	(26.7)	(0.26)	0.0	N/A	N/A
12/21e	217.8	(3.8)	(0.02)	0.0	N/A	N/A
12/22e	293.0	16.5	0.08	0.0	29.0	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Omnisys supports SDaaS growth

With over 30 years of experience in space, Omnisys brings four main technologies in ground and satellite-based data-gathering instruments and sensors to the group: radiometer systems, power and control units, THz products and microwave sensors. In addition to its major system development project for the Arctic Weather Satellite (AWS), it is expected the instruments can be integrated into AAC Clyde Space's cubesat platform offering. In turn, that should allow greater potential to capture new Space Data as a Service (SDaaS) clients who wish to collect and manipulate data for onward sale to end users. The low-cost nature of the AAC Clyde Space strategy and Omnisys's sensors facilitate the model for this access.

Balance sheet prepared for further growth investment

Management continues to position the company to deliver strong growth, although challenges remain. Supply chain constraints are a concern but so far increased inventory levels and early ordering in larger quantities has prevented disruption. AAC Clyde Space has extended its capabilities through Hyperion, SpaceQuest and Omnisys and strengthened its offering to the broader customer base. It has a US presence, which already has SDaaS revenues, seen as the core pillar of the growth strategy. Management expects to grow revenues five-fold by FY24, with c 25% of the incremental sales added by the acquisitions and the rest organically. Operating leverage should expand EBITDA margins into the high teens with a consequent increase in cash flow. The recent SEK100m (gross) fund raise positions the balance sheet to support the organic growth and M&A.

Valuation: Move to positive metrics to reduce risk

AAC Clyde Space has been transformed by the three recent acquisitions, creating a business with enhanced growth potential, critical scale and improving financial performance. Our capped DCF allowing for the full issuance against Omnisys stands at SEK5.6 per share.

Omnisys Instruments completion

We commented on the background, rationale and terms of the Omnisys deal in our last note [Building the platforms for growth](#) in March. The approval by shareholders of the deal terms alongside the contingent SEK100m private placement of shares was duly received at the EGM on 22 April 2021. As a result, the Omnisys purchase was completed on the 30 April 2021.

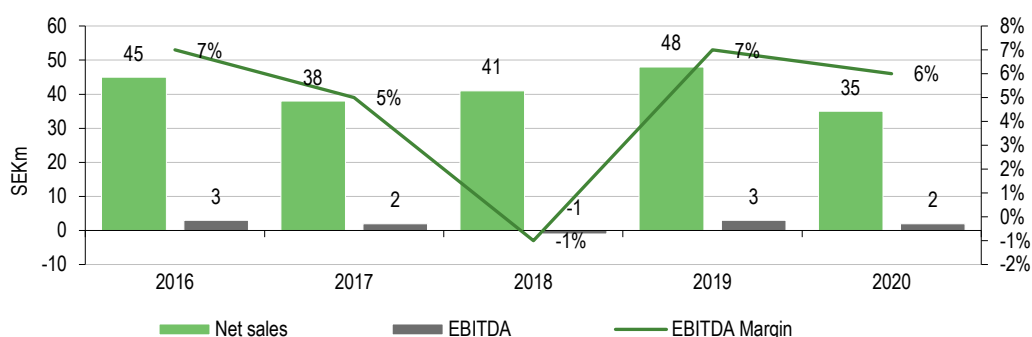
As is our usual protocol, we now adjust our estimates to reflect both transactions. While in the first instance we expect some dilution, management believes significant synergies combined with existing organic growth and operational leverage should drive value creation for shareholders.

In addition, some further information on Omnisys has become available, which we discuss below.

Stable historical trading performance

The five-year trading track record of Omnisys is shown in Exhibit 1. Revenues have fluctuated around SEK40m since 2016 and EBITDA margins have ranged between 5% and 7%, except for 2018 when the company reported a small EBITDA loss of SEK1m. Even in 2020, the company produced revenues of SEK34.9m with PBT of SEK1.4m

Exhibit 1: Omnisys Instruments historical trading highlights



Source: AAC Clyde Space

Omnisys adds around SEK130m of order backlog to the group (around three years of its sales), a large part of which is made up of a contract for the AWS mission for the European Space Agency (ESA). The programme consists of a one in-orbit prototype satellite being built by OHB Sweden. Omnisys has an initial contract worth €12.2m (SEK120m) to supply a sensor for the demonstrator. If successful the mission should lead to a constellation of polar-orbiting satellites supplying a stream of temperature and humidity data in almost real time, enhancing short-term weather forecasting globally. The contract scope for Omnisys could expand to €73m (SEK700m).

AAC Clyde Space announced in March it had won a contract to provide avionics packages for the AWS, potentially worth up to SEK10m for the initial satellite, including Sirius command and data handling units and the Starbuck power system, with mission specific customisation.

As well as the ESA and OHB Sweden, customers include the Swedish National Space Agency and ADS (Airbus Defence & Space), and other research organisations in the US and Japan.

The business model is expected to evolve as the AWS programme develops. The current design development and delivery of individual products is characterised by positive cash flows across project lifetimes as milestones are executed. It is expected to shift to a volume based, serial production model for sensors as the AWS project develops and cross-selling opportunities increase with the rest of AAC Clyde Space.

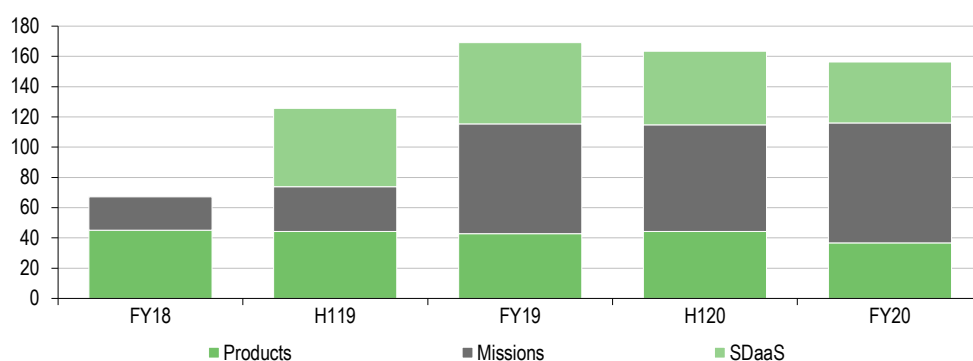
Significant potential synergies expected`

If we use our WACC estimate for AAC Clyde Space of just under 12%, Omnisys will have to contribute around SEK9.0m to NOPAT to create value, equivalent to an EBITDA of around SEK11.5m (assuming a standard Swedish corporate tax rate of 22%). While some of the increase is expected to come from existing organic growth and operating leverage as the model evolves to serial production, some additional synergies are expected from both marketing and upselling Omnisys sensors across AAC Clyde Space's broader customer base.

Order backlog development

AAC Clyde Space's management has provided some additional segmentation of order backlog and revenues in the recently published FY20 annual report. SDaaS has been broken out from missions and platforms for the first time, a segment that we believe by the end of the decade should be the dominant revenue stream. It contributed just SEK3.1m of revenues in FY20 with a SEK44.6m order backlog at the year end. At the end of FY20, the group order backlog stood at SEK156.3m, including both Hyperion and SpaceQuest but before adding around SEK130m from Omnisys.

Exhibit 2: AAC Clyde Space order backlog development

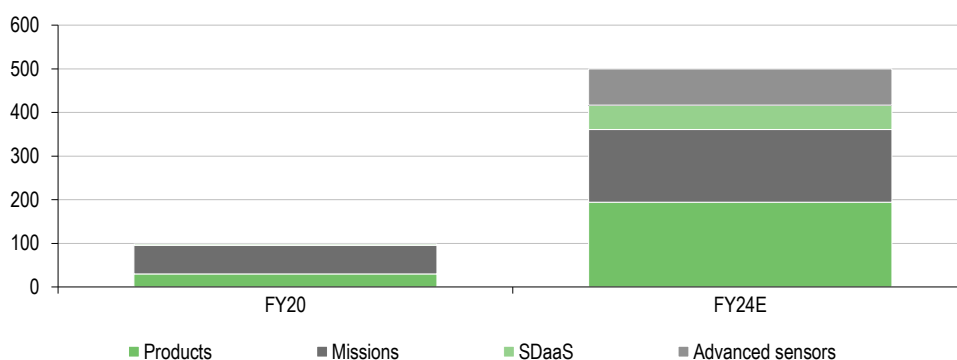


Source: AAC Clyde Space

Omnisys underpins FY24 revenue goal of SEK500m

As reaffirmed in the FY20 annual report, management is targeting SEK500m of revenues in FY24.

Exhibit 3: Anticipated revenue development by segment (SEKm)



Source: AAC Clyde Space

As can be seen from Exhibit 3, management expects growth to be driven by all segments. We expect the three acquisitions to add around SEK95m in aggregate on an annualised basis in FY21 and organic growth to deliver around SEK310m of additional revenues over the period to FY24. The rapid increase in recurring high-margin revenues from SDaaS to around SEK55m from SEK3.1m in

FY20 should occur as satellites and constellations are deployed and become operational for customers over the next few years. We expect strong growth in SDaaS revenues through the remainder of the decade. The addition of Omnisys as a new revenue stream is expected by AAC Clyde Space to allow the advanced sensors revenues to more than double from current levels to around SEK85m by 2024.

Earnings estimates updated for Omnisys Instruments

Omnisys should be consolidated for eight months from the end of April 2021 and we estimate it should add around SEK25.0m of revenues and SEK2.1m of EBITDA in FY21. Our assumption for FY22 assumes a full-year contribution of SEK40.0m to revenues and EBITDA of SEK4.6m.

Exhibit 4: Financial summary

Year to Dec (SEKm)	2021e	2021e		2022e	2022e	
	Prior	New	% change	Prior	New	% change
By business						
AAC	39.4	39.4	0.0	50.0	50.0	0.0
Clyde	99.2	99.2	0.0	130.9	130.9	0.0
Hyperion	19.2	19.2		23.1	23.1	
SpaceQuest	35.0	35.0		49.0	49.0	
Omnisys		25.0			40.0	
Total group net sales	192.8	217.8	13.0	253.0	293.0	15.8
By activity						
Satellite platforms	86.6	86.6	0.0	118.5	118.5	0.0
Subsystems	105.2	130.2	23.8	132.5	172.5	30.2
Licence & royalties income	1.0	1.0		2.0	2.0	
Total group net sales	192.8	217.8	13.0	253.0	293.0	15.8
Other operating income	6.5	7.3		6.5	7.3	
Own work capitalised	15.7	15.7		14.9	14.9	
Total group income	215.0	240.8	12.0	274.4	315.2	14.9
Raw materials & subcontractors	(86.8)	(93.7)	7.9	(101.2)	(111.3)	10.0
Personnel costs	(89.4)	(103.0)	15.2	(111.7)	(129.2)	15.6
Other external expenses	(32.8)	(37.0)	13.0	(40.5)	(49.1)	21.2
Other operating expenses	0.0	0.0		0.0	0.0	
EBITDA (company reported)	6.1	7.2	17.7	21.0	25.6	21.9
EBIT (underlying)*	(5.0)	(4.3)	(15.0)	9.1	13.2	45.9
Underlying PBT	(5.1)	(3.8)	(26.7%)	11.5	16.5	42.5%
EPS - underlying continuing (SEK)	(0.03)	(0.02)	(38.5%)	0.07	0.08	7.0%
DPS (SEK)	0.0	0.0		0.0	0.0	
Adjusted net cash / (debt)	54.6	123.9	127.0%	58.0	135.8	134.1%

Source: Edison Investment Research estimates. Note: *Before exceptionals

The SEK75m initial consideration for Omnisys is settled through a cash payment on completion of SEK25m with the balance met by the issue of 17.34m new consideration warrants to the vendors. Each warrant converts into one new AAC Clyde Space share exercisable in three equal tranches at market prices six, 12 and 18 months after completion.

In our model we have assumed the first tranche of consideration warrants is fully exercised at the end of October, with the second and third tranches exercised in 2022. We have adjusted for the SEK100m capital raise that was approved contingent on the Omnisys consideration terms being agreed, increasing the number of shares in issue to 186.4m. By the year end, the number of shares will increase to 192.2m due to conversion of the first tranche, and to 203.8m by the end of FY22 as the subsequent consideration warrant tranches convert. The tranches are to be valued at the prevailing share price at the time of exercise, and for simplicity we assume this to be the current share price. The consideration value and goodwill recognised is therefore likely to vary.

We have adjusted our net cash assumption for the end of FY21 and FY22 to reflect the SEK25m cash part of the consideration paid being more than offset by the capital raise which we assume to add SEK93m after issuance costs. Clearly, it also includes the cash performance of Omnisys.

Valuation

As we noted in our previous report, the purchase of Omnisys and the now completed contingent capital raise are initially dilutive for shareholders unable to participate. Having said that, we expect Omnisys to have a positive impact on profitability metrics and operational cash flow in FY21 and beyond and to create value by around FY25 in our model. Our DCF value reduces to SEK5.6 due to the increase in share count partially offset by the addition of Omnisys cash generation.

We continue to use a relatively high cost of equity of 12% when calculating our WACC of 11.99%, but assuming a move to profitability and positive cash flows we would expect this to reduce in the next few years. The sensitivity of our capped DCF to various terminal growth and WACC assumptions are shown below.

Exhibit 5: AAC Clyde Space capped DCF sensitivity to WACC and terminal growth rate assumptions (SEK/share)

WACC	7.00%	8.00%	9.00%	10.00%	11.00%	11.99%	12.00%	13.00%	14.00%
Terminal growth rate									
0%	10.7	9.2	8.0	7.0	6.3	5.6	5.6	5.1	4.6
1%	12.3	10.3	8.8	7.7	6.8	6.0	6.0	5.4	4.9
2%	14.5	11.8	9.9	8.5	7.4	6.5	6.5	5.8	5.2
3%	17.8	13.9	11.3	9.5	8.1	7.1	7.1	6.3	5.6

Source: Edison Investment Research estimates

Exhibit 6: Financial summary

	SEKm	2019	2020	2021e	2022e
Year end December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Net sales		66.4	98.4	217.8	293.0
Own work capitalised and other operating income		14.1	21.1	23.0	22.2
Group income		80.6	119.5	240.8	315.2
EBITDA		(27.3)	(17.5)*	7.2	25.6
Operating Profit (before amort. and except).		(32.7)	(22.2)	1.6	19.6
Intangible Amortisation		(4.6)	(3.3)	(5.9)	(6.4)
Exceptionals		(2.9)	(12.1)	(11.8)	(4.4)
Other		0.0	0.0	0.0	0.0
Operating Profit		(40.2)	(37.5)	(16.1)	8.8
Net Interest		(0.8)	(1.3)	0.5	3.2
Profit Before Tax (norm)		(38.2)	(26.7)	(3.8)	16.5
Profit Before Tax (FRS 3)		(41.0)	(38.8)	(15.5)	12.0
Tax		0.5	0.5	0.8	(0.6)
Profit After Tax (norm)		(37.8)	(26.4)	(3.6)	15.6
Profit After Tax (FRS 3)		(40.6)	(38.3)	(14.8)	11.4
Average Number of Shares Outstanding (m)		84.8	102.3	175.3	196.1
EPS - fully diluted (SEK)		(0.45)	(0.26)	(0.02)	0.08
EPS - normalised (SEK)		(0.44)	(0.26)	(0.02)	0.08
EPS - (IFRS) (SEK)		(0.48)	(0.37)	(0.08)	0.06
Dividend per share (SEK)		0.0	0.0	0.0	0.0
EBITDA Margin (%)		-41.1	-17.8	3.3	8.7
Operating Margin (before GW and except.) (%)		-49.3	-22.5	0.7	6.7
BALANCE SHEET					
Fixed Assets		436.9	523.0	561.6	595.7
Intangible Assets		418.6	494.3	536.1	573.5
Tangible Assets		4.1	16.2	15.7	15.2
Right of use asset		14.2	12.5	9.8	7.0
Investments		0.0	0.0	0.0	0.0
Current Assets		108.5	113.3	240.9	266.1
Stocks		13.1	12.8	41.5	49.8
Debtors		17.7	9.5	41.7	46.9
Cash		52.4	62.4	125.0	140.0
Other		25.2	28.5	32.8	29.4
Current Liabilities		(60.5)	(56.1)	(113.4)	(127.5)
Creditors		(60.5)	(56.1)	(113.4)	(127.5)
Short term borrowings		0.0	0.0	0.0	0.0
Long Term Liabilities		(16.0)	(14.4)	(12.7)	(13.2)
Long term borrowings		(0.8)	(0.3)	(1.1)	(4.1)
Lease liabilities		(14.1)	(12.9)	(10.3)	(7.8)
Other long term liabilities		(1.1)	(1.2)	(1.2)	(1.2)
Net Assets		468.9	565.8	676.4	721.2
CASH FLOW					
Operating Cash Flow		(15.3)	(14.2)	3.4	26.7
Net Interest		(0.8)	(0.7)	0.7	3.4
Tax		0.4	0.4	0.2	(0.8)
Capex		(13.9)	(17.2)	(17.8)	(17.6)
Acquisitions/disposals		(3.0)	(113.8)	(41.5)	(33.1)
Financing		73.3	156.8	116.7	33.3
Dividends		0.0	0.0	0.0	0.0
Net Cash Flow		40.7	11.4	61.7	12.0
Opening net debt/(cash) excluding lease liabilities		(10.9)	(51.6)	(62.2)	(123.9)
HP finance leases initiated		0.0	0.0	0.0	0.0
Other		0.1	(0.8)	0.0	(0.0)
Closing net debt/(cash) excluding lease liabilities		(51.6)	(62.2)	(123.9)	(135.8)
Net financial liabilities including lease liabilities		(37.5)	(49.3)	(113.6)	(128.1)

Source: Company reports, Edison Investment Research estimates. Note: *Before SEK9.3m exceptional acquisition and personnel costs.

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